

**REPORT OF THE AUDIT OF THE  
KENTON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KENTON COUNTY CLERK**

**For The Year Ended  
December 31, 2005**

The Auditor of Public Accounts has completed the Kenton County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Kenton County Clerk had total receipts of \$32,264,406, which was a \$624,853 increase from the prior year. Except for reimbursed expenses in the amount of \$158,840, the clerk paid 25% of receipts to the Kenton County Fiscal Court in the amount of \$697,330. This was an increase of \$5,184 from the prior year. In addition, disbursements of the local bank account increased by \$626,525 and disbursements of the operating fund increased by \$19,450.

#### **Report Comment:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ralph Drees, Kenton County Judge/Executive  
Honorable Bill Aylor, Kenton County Clerk  
Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Kenton County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ralph Drees, Kenton County Judge/Executive  
Honorable Bill Aylor, Kenton County Clerk  
Members of the Kenton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Kenton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 1, 2006



KENTON COUNTY  
 BILL AYLOR, COUNTY CLERK  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Grant (Libraries and Archives)		\$	4,301
State Fees For Services			54,703
Fiscal Court			20,147
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,769,205	
Usage Tax		13,483,232	
Tangible Personal Property Tax		11,448,324	
Other-			
Marriage Licenses		44,978	
Occupational Licenses		5,395	
Beer and Liquor Licenses		290,778	
Deed Transfer Tax		798,173	
Delinquent Taxes		<u>2,122,311</u>	30,962,396
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		94,094	
Real Estate Mortgages		408,899	
Chattel Mortgages and Financing Statements		222,741	
Powers of Attorney		6,033	
All Other Recordings		295,181	
Charges for Other Services-			
Candidate Filing Fees		1,100	
Copywork		<u>26,736</u>	1,054,784
Other:			
Miscellaneous		2,615	
Postage		83,628	
Bad Checks and Fees Collected		46,460	
IRS Direct Deposit		<u>2,600</u>	135,303
Interest Earned			<u>32,772</u>
Total Revenues			32,264,406

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY  
 BILL AYLOR, COUNTY CLERK  
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 2,062,884	
Usage Tax	13,078,267	
Tangible Personal Property Tax	3,635,309	
Licenses, Taxes, and Fees-		
Delinquent Tax	201,379	
Legal Process Tax	<u>127,345</u>	\$ 19,105,184

Payments to Fiscal Court:

Tangible Personal Property Tax	1,158,007	
Delinquent Tax	203,530	
Deed Transfer Tax	758,263	
Occupational Licenses	<u>4,360</u>	2,124,160

Payments to Other Districts:

Tangible Personal Property Tax	6,223,103	
Delinquent Tax	<u>1,224,425</u>	7,447,528

Payments to Sheriff 9,351

Payments to County Attorney 311,513

Miscellaneous	1,628	
City Stickers	262,452	
Libraries and Archives	4,301	
Uncollected Returned Checks	38,925	
Refunds	<u>13,316</u>	<u>320,622</u>

Total Allowable Expenditures \$ 29,318,358

Net Revenues \$ 2,946,048

Payments to State Treasurer:

75% Operating Fund	\$ 2,248,718	
25% County Fund	<u>697,330</u>	<u>2,946,048</u>

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ 217,493	\$	\$ 217,493
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	2,248,718		2,248,718
Fees Paid to State - County Funds (25%)		697,330	697,330
Total Funds Available	2,466,211	697,330	3,163,541
<u>Expenditures</u>			
Kenton County Fiscal Court		697,330	697,330
Personnel Services-			
County Clerk's Salary	91,024		91,024
County Clerk's Expense Allowance	3,600		3,600
Deputies' Salaries	1,348,730		1,348,730
Employee Benefits-			
Employer's Share Social Security	104,842		104,842
Employer's Share Retirement	135,537		135,537
Employer's Paid Health Insurance	417,462		417,462
Contracted Services-			
Printing and Binding	9,254		9,254
Materials and Supplies-			
Office Supplies	38,214		38,214

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY  
 BILL AYLOR, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Travel	\$ 779	\$	\$ 779
Dues	3,450		3,450
Postage	27,738		27,738
Phone	25,582		25,582
Computer and Supply	46,245		46,245
Maintenance	8,472		8,472
Parking	13,020		13,020
Unemployment Insurance	885		885
General Liabilities	55,320		55,320
Delivery	2,530		2,530
Miscellaneous	4,125		4,125
Capital Outlay-			
Office Equipment	3,190		3,190
Total Expenditures	2,339,999	697,330	3,037,329
Fund Balance - December 31, 20005	\$ 126,212	\$ 0	\$ 126,212

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2005

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

KENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005  
(Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

KENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005  
(Continued)

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of September 13, 2005, \$879,021 of the County Clerk's bank balance of \$2,433,468 was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured - \$879,021

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$24,400. The beginning balance was \$ 24,755. Interest was earned in the amount of \$593. During the year \$4,301 was expended, leaving a balance of \$21,047 as of December 31, 2005.

Note 5. Bankruptcy/Bond Account

The County Clerk maintains a separate bank account for the receipt and disbursement of bankruptcies and mechanic's bonds. The beginning balance was \$22,642. Of this amount, \$14,100 was a mechanic's bond and the remainder was for bankruptcies. Interest earned was \$506 and bankruptcy deposits totaled \$23,064. Bankruptcy refunds of \$9,967 were expended and \$16,520 was paid to the fee account to be distributed as delinquent taxes. There was no activity with the mechanic's bonds. The account had a balance of \$19,725 at December 31, 2005.

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COMMENT AND RECOMMENDATION



KENTON COUNTY  
BILL AYLOR, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted a lack of adequate segregation of duties for the internal control structure of the County Clerk's Office. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of adequate segregation of duties. We recommend that the County Clerk separate the cash safe-keeping function from the cash reconciling function.

*County Clerk's Response:*

*No response noted*

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been resolved and is reported in the notes to the financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ralph Drees, Kenton County Judge/Executive  
Honorable Bill Aylor, Kenton County Clerk  
Members of the Kenton County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Kenton County Clerk for the year ended December 31, 2005, and have issued our report thereon dated May 1, 2006. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Kenton County Clerk's financial statements for the year ended December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 1, 2006



